

**STATE OF MINNESOTA
OFFICE OF ADMINISTRATIVE HEARINGS
FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION**

In the Matter of a Petition by
Excelsior Energy, Inc. for Approval
Of a Power Purchase Agreement, Under
Minn. Stat. § 216B.1694,
Determination of Least Cost
Technology, and Establishment of a
Clean Energy Technology Minimum
Under Minn. Stat § 216B.1693

PUC Docket No. E-6472/M-05-1993
OAH Docket No. 12-2500-17260-2

**REBUTTAL TESTIMONY OF
MARGARET L. HODNIK**

1 The above matter is before Administrative Law Judges Steve M. Mihalchick and
2 Bruce Johnson. Pursuant to Minnesota Rules Chapter 1400, the following is submitted as
3 rebuttal testimony offered by Minnesota Power.

4 **Q. Please state your name.**

5 A. My name is Margaret L. Hodnik.

6

7 **Q. By whom are you employed?**

8 A. I am employed by Minnesota Power as its Director of Regulatory and Public
9 Affairs. My office is located at 30 W. Superior Street, Duluth, Minnesota 55802.

10

11 **Q. What is your educational and professional background?**

12 A. I have been employed by Minnesota Power for 17 years, currently as Director of
13 Regulatory and Public Affairs. Prior to assumption of my current role, I spent five
14 years as a key account manager for two taconite mining operations. These
15 customers are among the 12 large industrial concerns that represent the largest
16 share of Minnesota Power's electric load and, as multi-million dollar purchasers

1 annually of electricity, have a major impact on our operations and financial
2 performance. In this capacity, I had overall responsibility for all aspects of
3 customer contact with these accounts including relationship management, contract
4 negotiations, product applications, special project development and customer
5 service. Prior to this duty, I was involved in various marketing, energy
6 conservation, business development and strategic planning activities at Minnesota
7 Power.

8
9 I am a native of Aurora, Minnesota and B.A. graduate of Macalester College. I
10 have been a member of the Iron Mining Association of Minnesota Board of
11 Directors since 2003 and was appointed to the Governor's Committee on
12 Minnesota's Mining Future (2003-04) which examined a multitude of industry
13 issues during a time of crisis and made policy recommendations on ensuring
14 industry viability to the Governor.

15

16 **Q. What are your responsibilities as Director of Regulatory and Public Affairs?**

17 A. As Director of Regulatory and Public Affairs, my responsibilities include strategic
18 regulatory planning, overall management of regulatory working relationships,
19 coordinating the development and communication of Company state and federal
20 public policy positions and coordinating economic and environmental policy
21 filings. In this role, I also manage staff responsible for general employee
22 communications and communications with the media and general public.

23

24 **Q. What is the purpose of your testimony?**

1 A. My testimony is provided in response to that of Minnesota Department of
2 Commerce Deputy Commissioner Edward Garvey (hereinafter “Commissioner
3 Garvey”) dated September 5, 2006 (“Garvey Direct”). I have reviewed Mr.
4 Garvey’s testimony, and the testimony of Xcel Energy and offer a response to
5 both.

6

7 **Q. What is Minnesota Power’s view of Commissioner Garvey’s description of**
8 **the State of Minnesota’s overarching electricity policy goal?**

9 A. Minnesota Power agrees that State energy policy must result in the provision of
10 “reliable, low cost and environmentally superior electricity” (See Garvey Direct at
11 page 3.) (For example, see Minnesota Power’s 2004 resource plan filing in MPUC
12 Docket No. E-015/RP-04-865.) Just as importantly, Minnesota Power also
13 believes, similarly to Commissioner Garvey, that all three of these characteristics
14 must be in balance in the energy supply equation, with no one of them sought or
15 achieved while neglecting the others.

16

17 Minnesota Power continually balances cost, reliability and environmental
18 priorities in every resource decision it makes. We believe we have been able to
19 succeed on all three fronts by operating well below federal emission standards for
20 over two decades reliably while providing electricity at rates among investor-
21 owned utilities cited recently by the Edison Electric Institute as eighth lowest in
22 the nation. These results have been achieved under the aegis of State regulatory
23 processes including integrated resource planning, certificate of need requests and
24 other established, public proceedings.

1

2 **Q. How has the State’s success with difficult or complex energy policy decisions**
3 **been realized?**

4 A. The State’s regulatory agencies and framework, initially authorized through
5 legislation and then fully realized on an ongoing basis through agency
6 implementation and practice, have been central to ensuring that plans for energy
7 supply are developed and analyzed well in advance of need, with full public input
8 and discourse. Additionally, specific infrastructure proposals and additions related
9 to those plans are vetted in public processes before decisions whether to actually
10 construct them are rendered by regulators, acting in the public interest. These
11 processes take into account a host of considerations regarding and impacts
12 resulting from resource decisions, since energy infrastructure investments result in
13 decades-long commitments made on behalf of ratepayers.

14

15 **Q. What is Minnesota Power’s view of Commissioner Garvey’s discussion of the**
16 **“analytical public interest framework for handling questions raised by the**
17 **very important Mesaba project”?** (Garvey Direct at pages 4-5).

18 A. Commissioner Garvey raises several important, overarching questions that need to
19 be answered about the Mesaba Project. They include whether the proposed Power
20 Purchase Agreement (“PPA”) between Excelsior and Xcel appropriately balances
21 economic risks and benefits to protect ratepayers, whether the costs for electricity
22 produced by the Project are reasonable, fair and appropriate, and whether the
23 Project constructively fits the state’s long term policy as he describes it.

1 **Q. Does Minnesota Power agree with Commissioner Garvey’s analysis of the**
2 **challenges of the next five to fifteen years that impact the State’s energy**
3 **policy? (Garvey Direct at pages 5-6).**

4 A. Minnesota Power concurs with the Commissioner’s statements about the need for
5 expanded and upgraded electric infrastructure in the coming years and that these
6 additions must be made while incorporating increased environmental
7 requirements. The most recent utility resource plan filings, the state biennial
8 transmission plan filings, the joint utility CapX transmission development effort
9 and its recent notice plan filings all are current testament to the fact that the
10 State’s utilities recognize the need for future power generation and delivery
11 infrastructure additions. Additionally, plans are being filed and/or implemented
12 by Xcel and Minnesota Power to significantly reduce emissions at existing
13 facilities. Minnesota Power, Xcel and other utilities’ also are making investments
14 in wind energy, clean coal technologies as well as carbon capture and storage
15 research. These commitments underscore that the State’s utilities are aware of the
16 need to plan for known and anticipated future environmental requirements and are
17 taking steps to meet them.

18

19 **Q. Does Minnesota Power’s agree with Commissioner Garvey on the potential**
20 **for the Mesaba Project to help meet the State’s electricity challenges?**

21 A. Minnesota Power believes IGCC technology, among other modern coal-fired
22 technologies, has a role in future power generation. The Mesaba Project, as
23 proposed, has not demonstrated that it is the best project to meet Minnesota’s
24 energy challenges.

1 **Q. Why does Minnesota Power think the Mesaba Project has not demonstrated it**
2 **is the best project to meet Minnesota’s energy challenges?**

3 A. With IGCC in particular, Minnesota Power believes it would be sensible to locate
4 such a plant where the distance for CO₂ storage is minimized in order to optimize
5 the chances such a pipeline could be built and minimize pipeline costs, which is
6 not in Minnesota. As noted in the Michael Cashin Direct Testimony dated
7 September 5, 2006 on page 5 and in the Minnesota Power response to Excelsior
8 Energy’s Information Request Number 80, an IGCC plant in Northeastern
9 Minnesota has no realistic opportunity for carbon capture and storage. In addition
10 to the CO₂ storage consideration, Minnesota Power believes it also would be
11 logical either to locate a plant as close to its fuel supply or its customers as
12 possible to reduce the distance and costs for fuel transportation or transmission
13 builds. The Mesaba Project, as proposed, would import fuel from potentially a
14 thousand miles away to produce power to export to customers several hundred
15 miles away. Furthermore, any generation project that will be paid for by
16 ratepayers, whether involving IGCC or another technology, Mesaba included,
17 must be evaluated on its particular public interest merits and not approved without
18 answering important and fundamental public interest questions simply because it
19 appears to present an opportunity to employ new technology. Minnesota Power
20 does not believe the evidence in the record currently meets Excelsior’s burden of
21 proof to support approval of the Mesaba Project. If anything, testimony entered in
22 to the record to date raises even more questions that must be answered about the
23 costs, benefits and viability of the Project before the Commission can make a final
24 decision about it.

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Q. Does Minnesota Power agree that the Mesaba Project has the potential to be a reliable energy resource as asserted by Commissioner Garvey? (Garvey Direct at pages 7-8).

A. It might, but we believe it is unlikely. The Mesaba Project plans to use IGCC technology which, as indicated in our testimony (Dwight Anderson Direct Testimony dated September 5, 2006 Exhibit DDA-1) and that of others, is not commercialized for power production. Unlike other forms of coal-based technology, there are not hundreds or even a dozen IGCC plants operating in the United States. As referenced on page 10 of the Anderson Direct Testimony, the other first stage commercial IGCC plants that have been built were all under 300MW. The Mesaba Project, at 603MW, would be scaled up in size significantly from the two plants that are currently in commercial operation, depending on the fuel that is eventually selected for use on the Project. The successful or smooth scale up of IGCC technology for the Mesaba Project is not a given, especially when there are only two examples of these types of plants operating at less than half the size of the Mesaba proposal. Furthermore, the Mesaba Project plans to rely on lower rank sub-bituminous coal as its design fuel. Neither of the existing and operating IGCC plants are using sub-bituminous coal so there is no existing, operating IGCC plant with proven reliability on sub-bituminous coal. Thus, the State of Minnesota should have serious questions about the likely reliability of the Mesaba Project, especially considering that Xcel’s customers would be depending on it for a significant amount of base load (24/7) energy. From a reliability standpoint, if the State wished to support a

1 generation build experiment on behalf of ratepayers with IGCC technology and to
2 conduct that experiment with an unproven fuel, Minnesota Power thinks it would
3 make more sense for such a facility to be proposed at a smaller size. We also
4 think it would make more sense to propose such a project in a location where the
5 CO₂ it emits can be sequestered as nearby as possible, minimizing the miles of
6 pipeline needed to transport the CO₂ to a storage facility.

7

8 **Q. What are Minnesota Power's observations regarding Commissioner**
9 **Garvey's testimony on the policy element of "low cost" relative to the cost**
10 **information in the record to date on the Mesaba Project? (Garvey Direct**
11 **pages 8-9).**

12 A. Our views on plant reliability are part of our answer to this question. Minnesota
13 Power questions the basis in the record for granting a regulatory endorsement or,
14 ultimately, a regulatory approval of the costs and the financial risk that would be
15 placed on customers and shareholders if forced to shoulder the responsibility for
16 the capital required on a plant scale up of this magnitude with a technology that is
17 not commercially proven on its design fuel. Furthermore, the capital costs will
18 depend on final project engineering which is not completed for the Mesaba
19 Project, so the fixed costs ratepayers would bear are not yet established.

20

21 Additionally, Minnesota Power and others have testified about concerns with the
22 multiple fuel supply plan Excelsior has proposed. This is especially the case since
23 the Mesaba Project argues its multiple fuels plan is a significant project benefit,
24 yet it has no fuel supply or transportation contracts that support any cost

1 assumptions or delivery viability. As with the yet to be determined capital costs,
2 Xcel's ratepayers would be paying for the Mesaba Project's fuel costs, one way or
3 another, if the Project is approved. The costs of fuel and fuel delivery for the
4 Mesaba Project should be established.

5
6 Beyond the previously discussed items, it should be noted that while Excelsior
7 recently made more information about its Mesaba Project PPA public, there is
8 still important cost information that has been and still is being withheld by
9 Excelsior from the public in this proceeding. Additionally, Minnesota Power and
10 the general public are still awaiting the re-marked versions of other parties'
11 testimony resulting from the most recently released information. Without full
12 public disclosure of and dialogue on the Mesaba Project's costs, it is impossible to
13 ascertain the validity of all the cost information filed as part of the PPA.

14
15 Thus, based on the financial risk posed by the Mesaba Project's technology scale
16 up, the need for more complete capital cost information, the lack of verified fuel
17 cost and delivery information and the ongoing withholding of the remainder of the
18 Project's cost information by Excelsior, the Mesaba Project has not proven it is a
19 "low cost" resource.

20

21 **Q. Is the Mesaba Project's proposed in-service date of 2011 consistent with**
22 **Xcel's 2006 Resource Plan Order and the State's resource planning process**
23 **in general? (Garvey Direct at pages 9-10).**

1 A. It would be inconsistent if the Commission were to approve the Mesaba Project as
2 an energy supply resource to come on line for Xcel's customers in 2011 when the
3 Commission has already issued an Order in Docket No. E-002/RP-04-1752 (dated
4 July 28, 2006) stating Xcel's earliest base load need is in 2015. There is no basis
5 for making an exception from that process for the Mesaba Project since there is no
6 authority to require any utility's customers to fund the construction and supply of
7 a new facility that is not needed.

8

9 **Q. Does Minnesota Power see any further potentially negative implications of**
10 **regulatory approval of the Mesaba Project apart from contravening duly**
11 **authorized resource planning proceedings and decisions?**

12 A. Yes. Regulators also should remain aware of what the outcome in the Mesaba
13 proceeding may communicate to the investment and credit rating communities,
14 which have significant influence over the financial well-being of investor-owned
15 utilities. Approval of a forced purchased power agreement with terms that Xcel
16 has described in its testimony as financially negative, for power that is not needed
17 by its customers, will send troubling messages to investors and rating agencies
18 about the regulatory process in Minnesota. In its testimony, Xcel has indicated the
19 potential for negative impacts on its stock prices, bond issuances, debt and credit
20 ratings and capital structure if the Mesaba PPA as proposed were approved in this
21 proceeding and thereby forced financially on Xcel. Minnesota's utility investors
22 and customers have, in their respective ways and with proper and necessary
23 regulatory involvement, built and sustained financially strong utilities that have
24 been capable of meeting various stakeholder needs and obligations for decades.

1 Utilities that are perceived to operate in risky or ill-considered regulatory
2 environments will receive corresponding financial evaluations and treatment
3 when they seek funding from lenders and investors. Regulators must continue to
4 recognize the important role they play in ensuring that the investment community
5 feels Minnesota utilities are a good place to invest their capital. This role is
6 nowhere more evident and crucial than in decisions made in State regulatory
7 proceedings.

8

9 **Q. What does Minnesota Power see as the economic development impacts**
10 **related to the Mesaba Project and energy policy as discussed by**
11 **Commissioner Garvey? (Garvey Direct at pages 10-12).**

12 A. Minnesota Power has been and remains committed to economic development in
13 Northeastern Minnesota in two primary ways – by supplying competitive, reliable
14 and environmentally responsible energy to retail and wholesale customers and
15 through our direct participation in economic development organizations and
16 initiatives. Of the two efforts, we firmly believe that our first responsibility lies in
17 providing energy supplies that will sustain and grow the region’s economy,
18 because this is our primary expertise and because without the foundation of
19 economical and reliable energy, there simply would be no viable basis for
20 economic growth.

21

22 Within the preceding context, Minnesota Power does not agree with the
23 promotion of generation facilities as a primary form of economic development.

24 We believe that a low cost, reliable and environmentally responsible supply of

1 energy for Minnesota is a vital underpinning to other forms of economic
2 development; building generation is not an appropriate or sensible means to a
3 primary end of creating jobs. Generation projects should not be sought with an
4 employment creation priority at the risk of potentially having higher cost,
5 unreliable and/or environmentally less desirable energy supplies. The latter
6 outcome, as a result of chasing jobs, would only put existing industries and
7 employment at risk. Generation addition approvals with primary job creation as a
8 deciding factor also undermine the State's resource planning process because
9 public interest need determinations will no longer matter.

10

11 As noted earlier, Commissioner Garvey has quite correctly pointed out that the
12 State's energy supply equation, whereby cost, reliability and environmental
13 impacts are all given their due, is already quite complex to reconcile successfully
14 and it will remain that way. Given that there are State-sponsored means of
15 promoting economic development, it is not necessary and, we believe, it is
16 detrimental to energy policy to add direct job creation as a priority when making
17 energy policy decisions.

18

19 Despite our negative views on the policy implications of involving job creation as
20 yet another priority to contend with when developing energy supplies, Minnesota
21 Power recognizes the presence of a statutory consideration of economic
22 development impacts in connection with the Mesaba Project proposal and also
23 believes it is obvious the construction of any new power plant anywhere in the
24 State would have potentially positive economic impacts from construction,

1 employment and operations. Any look at economic development impacts in this
2 proceeding, however, should have a broader lens. It should also include the
3 impact of the Mesaba Project on overall electric energy and infrastructure costs in
4 the State. This information is not in the record. The economic development
5 impact of additional costs for the transmission lines needed to deliver the output
6 of the Mesaba Project from the Iron Range to the Twin Cities is also a
7 consideration. This is particularly the case when a significant portion of the
8 transmission costs caused by the Mesaba Project will be absorbed by Minnesota
9 Power's ratepayers. Minnesota Power does not take adding costs to any of its
10 customers' rates lightly, especially for a project whose fundamental public
11 interest justification is not proven and corresponding benefits for Minnesota
12 Power ratepayers are limited or perhaps nonexistent.

13

14 **Q. What are Minnesota Power's observations regarding the value of the**
15 **environmental benefits of the Mesaba Project compared to other coal-fired**
16 **alternatives?**

17 A. Minnesota Power has filed testimony stating that the environmental benefits of
18 the Mesaba Project's IGCC technology on reducing emissions of criteria
19 pollutants (SO₂, NO_x, particulates and mercury) are insignificant when compared
20 to modern super critical pulverized coal performance. The differences in
21 emissions of criteria pollutants between IGCC and modern supercritical
22 pulverized coal technology are typically less than just a few percent compared to
23 uncontrolled emissions. Cashin Direct at pages 4-5. Minnesota Power's view is
24 that the inherent risks of the State of Minnesota investing in a technology like

1 IGCC, which lacks full commercial status, should be for the opportunity IGCC
2 may afford to advance CO₂ sequestration and storage. Despite the potential for
3 IGCC to sequester CO₂, it should be noted that technology to capture CO₂
4 emissions from modern super-critical pulverized coal plants is also advancing, so
5 it is not the case that only IGCC holds the promise finding a solution for CO₂
6 emissions. (Cashin Direct at pages 5-6.)

7
8 In terms of the Mesaba Project, there are no concrete plans for CO₂ sequestration
9 and storage of its emissions. CO₂ sequestration and emissions storage on IGCC is
10 still the subject of research and development, and Minnesota Power, Xcel Energy
11 and others are funding research and/or participating in research to achieve
12 commercialization of this process. However, as stated by Michael Cashin on page
13 5 of his Direct Testimony, the geology in Northeastern Minnesota is not amenable
14 to storage of CO₂. Realizing storage for the Mesaba Project some day would
15 involve obtaining permission and rights of way to build a pipeline several hundred
16 miles long from Minnesota to North Dakota, in addition to the required plant
17 modifications. The pipeline would require hundreds of millions dollars of
18 investment beyond what is required to build the plant being proposed in the
19 Mesaba Project PPA. (See Frank Miao Direct Testimony dated September 5,
20 2006 at pages 22-23.) Construction of CO₂ sequestration and storage is not a part
21 of the proposed PPA and thus is not a concrete prospect for the Mesaba Project. It
22 cannot be justifiably included as a benefit in considering the value of the Mesaba
23 Project as an energy supply resource. At this point, CO₂ sequestration and storage
24 on the Mesaba Project is a pipe dream.

1

2 **Q. Are there any broader environmental impacts regarding the Mesaba Project**
3 **that should be considered in making a decision about the Project?**

4 A. Looking at a bigger picture regarding possible environmental consequences from
5 the Mesaba Project, consideration should be given to the fact that the potential
6 Mesaba Project's siting in Northeastern Minnesota would affect the available
7 increment for air permitting. There are four federal Class One Areas (Voyageurs
8 National Park, the Boundary Waters Canoe Area Wilderness, Apostle Islands
9 National Lakeshore and Isle Royal National Park) virtually surrounding the
10 northern and eastern edges of the region and continually tightening air emission
11 limits increasing restrictions on industrial operations within it. There also are a
12 number of viable economic development projects under development with natural
13 reasons (on-site mineral resources and timber) to be successfully located on or
14 near the Iron Range. Existing industrial operations which currently result in the
15 direct and indirect employment of thousands of people also face increasing
16 emission restrictions. The presence of the Mesaba Project, regardless of its
17 emissions profile, would affect the regional air increment and air permitting for
18 existing and new industries. The Mesaba Project could actually result in negative
19 economic development effects on existing or new facilities in the region from this
20 vantage point.

21

22 **Q. What are Minnesota Power's summary observations about the public policy**
23 **import and public interest benefits of the Mesaba Project?**

1 A. There are significant issues with the Mesaba Project PPA proposal that should be
2 rigorously examined, with consideration given to broad, long term impacts on the
3 State's energy policy and supply.

4

5 **Q. Does that conclude your testimony?**

6 A. Yes.